

OTTUMWA WATER WORKS
OTTUMWA, IOWA

INDEPENDENT AUDITOR'S REPORT
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

DECEMBER 31, 2015

OTTUMWA WATER WORKS

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OTTUMWA WATER WORKS

OFFICIALS
DECEMBER 31, 2015

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Pete Rich	Water Works Trustee	July, 2020
Keith Caviness	Water Works Trustee	July, 2022
Barb Allison	Water Works Trustee	July, 2016
Xavier Wilson	Water Works Trustee	July, 2018
Barbara Sasseen	Water Works Trustee	July, 2019
Michael Heffernan	General Manager	Indefinite

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Ottumwa Water Works
Ottumwa, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of Ottumwa Water Works as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Ottumwa Water Works' basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Ottumwa Water Works, as of December 31, 2015, and the respective changes in it's financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 4 to the financial statements, Ottumwa Water Works adopted new accounting guidance related to the Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information, the schedule of the Utility's proportionate share of the net pension liability, the schedule of Utility contributions and the schedule of funding progress for the retiree health plan on pages 4 through 7 and 26 through 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Ottumwa Water Works' basic financial statements. The detail schedule of revenues and expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The detail schedule of revenues and expenses is the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the detail schedule of revenues and expenses is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 27, 2016 on our consideration of Ottumwa Water Works' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Ottumwa Water Works' internal control over financial reporting and compliance.

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa
September 27, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

Ottumwa Water Works provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the calendar year ended December 31, 2015. We encourage readers to consider this information in conjunction with the Utility's financial statements which follow.

FINANCIAL HIGHLIGHTS

The Utility's operating revenues increased by approximately 13.7% or \$954,270 from 2014 to 2015. Increases in revenue from the sale of water accounted for the majority of the increase.

The Utility's operating expenses decreased approximately 1.1% or \$69,462 from 2014 to 2015. This decrease included a decrease in distribution expenses.

The Utility's net position increased approximately 10.3% or \$2,521,146 from 2014 to 2015.

USING THIS ANNUAL REPORT

The Ottumwa Water Works is a publicly owned utility and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting which is the same measurement focus and basis of accounting employed by private sector business enterprises. This discussion and analysis is intended to serve as an introduction to Ottumwa Water Work's basic financial statements. The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utility's financial activities.

The Statement of Net Position presents information about the Utility's assets, deferred outflows of resources, liabilities and deferred inflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Utility is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Position is the basic statement of activities for proprietary funds. This statement presents information on the Utility's operating revenues and expenses, non-operating revenues and expenses and whether the Utility's financial position has improved or deteriorated as a result of the current year's activities.

The Statement of Cash Flows presents the change in the Utility's cash and cash equivalents during the year. This information can assist the user of the report in determining how the Utility financed its activities and how it met its cash requirements.

The Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Utility's budget for the year, the Utility's proportionate share of the net pension liability and related contributions, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Supplementary Information provides detailed information about the Utility's revenues and expenses.

REPORTING THE UTILITY'S FINANCIAL ACTIVITIES

One of the most important questions asked about the Utility's finances is, "Is the Utility as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information which helps answer this question. These statements include all assets, deferred outflows of resources, liabilities and deferred inflows of resources using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Statement of Net Position presents financial information in all of the Utility's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in the Utility's net position may serve as a useful indicator of whether the financial position of the Utility is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Position presents information showing how the Utility's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal years.

FINANCIAL ANALYSIS OF THE UTILITY

Statement of Net Position

As noted earlier, net position may serve over time as a useful indicator of the Utility's financial position. The Utility's net position as of December 31, 2015 total \$26,959,933. This compares to \$24,438,787 as of December 31, 2014. A summary of the Utility's net position as of December 31, 2015 and 2014 is presented below:

<u>NET POSITION</u>		December 31,	
	<u>2015</u>	<u>2014,</u>	<u>as restated</u>
Current assets	\$ 5,943,714	\$	4,673,656
Non-current assets	<u>37,235,928</u>		<u>35,453,573</u>
Total assets	<u>43,179,642</u>		<u>40,127,229</u>
Deferred outflows of resources	<u>257,904</u>		<u>162,327</u>
Current liabilities	4,980,086		4,088,459
Long-term liabilities	<u>11,241,878</u>		<u>11,413,573</u>
Total liabilities	<u>16,221,964</u>		<u>15,502,032</u>
Deferred inflows of resources	<u>255,649</u>		<u>348,737</u>
Unrestricted	2,141,619		2,603,052
Net investment in capital assets	<u>24,818,314</u>		<u>21,835,735</u>
Total net position	\$ <u>26,959,933</u>	\$	<u>24,438,787</u>

Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27 was implemented during fiscal year 2015. The beginning net position as of January 1, 2014 was restated by \$1,100,839 to retroactively report the net pension liability as of June 30, 2013 and deferred inflows and outflows of resources related to the net pension liability. In the past, pension expense was the amount of the employer contribution. Current reporting provides a more comprehensive measure of pension expense which is more reflective of the amounts employees earned during the year.

Statements of Revenues, Expenses and Changes in Net Position

Operating revenues are received from the sale of water to Ottumwa residents, sale of hydro electric power, and other miscellaneous income. Non-operating revenues and expenses include interest income, loans forgiven, intergovernmental and interest expense. The utilization of capital assets is reflected in the financial statements as depreciation, which allocates the cost of an asset over its expected useful life. A summary of revenues, expenses and changes in net position for the years ended December 31, 2015 and 2014 is presented below:

CHANGES IN NET POSITION

	Year Ended December 31,	
	<u>2015</u>	<u>2014,</u> <u>as restated</u>
Operating revenue:		
Sale of water	\$ 6,866,735	\$ 6,232,807
Sale of electricity	492,903	218,541
Miscellaneous income	<u>550,378</u>	<u>504,398</u>
Total operating revenue	<u>7,910,016</u>	<u>6,955,746</u>
Operating expenses:		
Production	1,741,949	1,677,183
Distribution	1,789,642	1,958,247
Hydro	226,343	334,352
Financial services	402,616	394,405
Administration	139,967	142,147
General plant	446,002	421,388
Depreciation and amortization	<u>1,284,003</u>	<u>1,172,262</u>
Total operating expenses	<u>6,030,522</u>	<u>6,099,984</u>
Operating income	1,879,494	855,762
Non-operating revenue (expense):		
Interest income	34,429	36,321
Forgivable loan proceeds	916,400	-
Interest expense	(309,177)	(320,493)
Intergovernmental	<u>-</u>	<u>34,000</u>
Total non-operating revenue (expense)	<u>641,652</u>	<u>(250,172)</u>
Change in net position	2,521,146	605,590
Net position – Beginning of year, as restated	<u>24,438,787</u>	<u>23,833,197</u>
Net position – End of year	\$ <u>26,959,933</u>	\$ <u>24,438,787</u>

The Statement of Revenues, Expenses and Changes in Net Position reflects an increase at the end of the year in the net position.

During calendar year 2015, operating revenues increased 13.7%, or \$954,270. Water revenue increased \$633,920 due to a rate increase on January 1, 2015 and higher sales volume. Electricity revenue increased \$274,362 or 125.5% due to river levels affecting when electricity was able to be produced. Increases in production, financial services, and general plant expenses, are offset by decreases in distribution, hydro, and administration expenses.

Statement of Cash Flows

The Statement of Cash Flows presents information related to cash inflows and outflows, summarized by operating, capital and related financing activities and investing activities. Cash provided by operating activities include the sale of water, electricity and other receipts reduced for payments to suppliers and employees. Cash used in capital and related financing activities include the purchase of capital assets. Cash flows used in investing activities include interest income and the purchase and redemption of certificates of deposit. Cash flows provided by financing activities include proceeds and payments related to the Utility's debt.

BUDGET

The Utility submits a budget to the City of Ottumwa on an annual basis. Receipts for the year exceeded the amounts budgeted by \$91,048 and disbursements were less than amounts budgeted by \$327,174.

CAPITAL ASSETS

At December 31, 2015, the Utility had \$35,767,863, invested in capital assets, net of accumulated depreciation of \$25,644,966. Depreciation charges totaled \$1,279,003 for the year. More detailed information about the Utility's capital assets is presented in the Notes to Financial Statements.

LONG-TERM DEBT

At December 31, 2015, the Utility had \$12,156,617 in total long-term debt outstanding. During the year ended December 31, 2015, the Utility issued a total of \$1,426,075 of long-term debt to finance Utility construction projects. Amortization charges related to debt issuance costs totaled \$5,000 for the year. Additional information regarding the Utility's long-term debt is included in the Notes to Financial Statements.

ECONOMIC FACTORS

During 2015, Ottumwa Waters Works' financial position increased. However, the current condition of the economy in the State continues to be a concern for Utility officials. Some of the realities that may potentially become challenges for the Utility to meet are:

The Utilities distribution system requires constant maintenance and upkeep.

The continued inflationary increases in health care, chemicals, and energy costs.

Technology continues to expand and current technology becomes outdated presenting an on-going challenge to maintain up to date technology at a reasonable cost.

The Utility anticipates the current year will be much like the last and we will maintain a close watch over resources to maintain our ability to react to unknown issues.

CONTACTING THE UTILITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers and creditors with a general overview of the Utility's finances and to show the Utility's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ottumwa Water Works, P.O. Box 20, Ottumwa, Iowa, 52501.

OTTUMWA WATER WORKS
STATEMENT OF NET POSITION
DECEMBER 31, 2015

ASSETSCURRENT ASSETS:

Cash and cash equivalents	\$ 2,053,827
Certificates of deposit	2,000,000
Accounts receivable, net of allowance for uncollectible accounts of \$216,218	1,630,391
Inventory	235,297
Accrued interest receivable	1,421
Prepaid expenses	22,778
Total current assets	<u>5,943,714</u>

NON-CURRENT ASSETS:

Capital Assets:	
Buildings	6,924,469
Water distribution system	49,343,426
Equipment and vehicles	1,634,949
Office equipment	273,184
Total	58,176,028
Less accumulated depreciation	25,644,960
Depreciated value of capital assets	32,531,068
Land	947,577
Construction in progress	2,289,218
Total capital assets	<u>35,767,863</u>
Other Assets:	
Restricted cash and cash equivalents	51,793
Restricted certificates of deposit	300,000
Deferred charges - Debt issue costs	116,272
Certificates of deposit	1,000,000
Total other assets	<u>1,468,065</u>

TOTAL ASSETS 43,179,642

DEFERRED OUTFLOWS OF RESOURCES

Pension related deferred outflows	<u>257,904</u>
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LIABILITIESCURRENT LIABILITIES:

Accounts payable	1,306,136
Accrued payroll and related expenses	62,545
Accrued interest	49,026
Sales tax	14,653
Sick leave	260,309
Accrued vacation	91,484
Self insurance	21,436
Accrued disability and life insurance	92,600
Customer deposits	353,848
Current maturities of long-term liabilities	914,739
Accrued sewer and refuse collections	1,813,310
Total current liabilities	<u>4,980,086</u>

NON-CURRENT LIABILITIES:

Revenue bonds	8,366,611
Contract payable	1,668,199
Net OPEB liability	109,137
Net pension liability	1,097,931
Total noncurrent liabilities	<u>11,241,878</u>

TOTAL LIABILITIES 16,221,964

DEFERRED INFLOWS OF RESOURCESUNAVAILABLE REVENUES:

Pension related deferred inflows	<u>255,649</u>
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NET POSITION:

Net investment in capital assets	24,818,314
Unrestricted	2,141,619

TOTAL NET POSITION \$ 26,959,933

OTTUMWA WATER WORKS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2015

OPERATING REVENUES:

Sale of water	\$ 6,866,735
Sale of electricity	492,903
Miscellaneous income	<u>550,378</u>
Total operating revenue	<u>7,910,016</u>

OPERATING EXPENSES:

Production	1,741,949
Distribution	1,789,642
Hydro	226,343
Financial services	402,616
Administration	139,967
General plant	446,002
Depreciation and amortization	<u>1,284,003</u>
Total operating expenses	<u>6,030,522</u>

OPERATING INCOME 1,879,494

NONOPERATING REVENUE (EXPENSES):

Interest income	34,429
Loans forgiven	916,400
Interest expense	<u>(309,177)</u>
Net nonoperating revenue (expenses)	<u>641,652</u>

CHANGE IN NET POSITION 2,521,146

NET POSITION - BEGINNING OF YEAR, AS RESTATED 24,438,787

NET POSITION - END OF YEAR \$ 26,959,933

OTTUMWA WATER WORKS

STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2015CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$ 7,528,706
Cash received from other operating receipts	550,378
Cash paid to suppliers for goods and services	(2,459,414)
Cash paid to employees for services	(1,761,674)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>3,857,996</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Purchase of capital assets	(3,982,074)
Proceeds from long-term debt	1,403,575
Principal payments on long-term debt	(789,183)
Payment of interest on long-term debt	(303,300)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(3,670,982)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest on investments	34,429
Purchase of certificates of deposit	(1,300,000)
Proceeds from certificates of deposit	1,740,000
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>474,429</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS 661,443

CASH AND CASH EQUIVALENTS - Beginning of year 1,444,177CASH AND CASH EQUIVALENTS - End of year \$ 2,105,620RECONCILIATION OF OPERATING INCOME TO NET CASHPROVIDED BY OPERATING ACTIVITIES:

Operating income	\$ 1,879,494
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization expense	1,284,003
Increase in allowance account	16,500
Change in operating assets and liabilities:	
Increase in accounts receivable	(114,549)
Increase in inventory	(12,654)
Decrease in prepaid expenses	304
Increase in deferred outflows of resources	(95,577)
Increase in accounts payable	585,036
Increase in accrued payroll and related expenses	3,465
Decrease in sales tax	(5,185)
Increase in sick leave	1,456
Increase in accrued vacation	4,697
Decrease in self insurance	(66,724)
Increase in customer deposits	63,839
Increase in accrued sewer and refuse collections	208,463
Increase in net OPEB obligation	15,014
Increase in net pension liability	183,502
Decrease in deferred inflows of resources	(93,088)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 3,857,996</u>

COMPOSITION OF ENDING CASH AND CASH EQUIVALENTS:

Cash and cash equivalents	\$ 2,053,827
Restricted cash and cash equivalents	51,793
	<u>\$ 2,105,620</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Debt issued for debt issue costs	\$ 22,500
Debt reduction due to loans forgiven	<u>\$ 916,400</u>

See Accompanying Notes to the Financial Statements

OTTUMWA WATER WORKS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Ottumwa Water Works is organized as a municipal water utility which was established in 1910. They are overseen by a five member board appointed by the City Council and Mayor of the City of Ottumwa, Iowa. The Utility's operating budget is subject to the approval of the City Council. The Ottumwa Water Works is considered by the City of Ottumwa, Iowa to be substantially autonomous. The Ottumwa Water Works is funded entirely by water user charges collected from users of the Ottumwa Water Works' system.

The financial statements of the Ottumwa Water Works are prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board.

Reporting Entity

For financial reporting purposes, Ottumwa Water Works has included all funds, organizations, agencies, boards, commissions and authorities. The Utility has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Utility are such that exclusion would cause the Utility's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Utility to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Utility. Ottumwa Water Works has no component units which meet the Governmental Accounting Standards Board criteria.

Ottumwa Water Works is not presented as a Component Unit in the City of Ottumwa, Iowa's financial statements. The Utility is a legally separate entity from the City, but is financially accountable to the City.

Basis of Presentation

The accounts of the Ottumwa Water Works are organized as an Enterprise Fund. Enterprise Funds are used to account for operations (a) financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The Statement of Net Position displays the utility's assets, deferred outflows of resources, liabilities and deferred inflows or resources, with the difference reported as net position. Net position is reported in the following categories/components:

Net investment in capital assets consists of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Unrestricted net position consists of net position not meeting the definition of the preceding category. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

When both restricted and unrestricted net position is available for use, generally it is the utility's policy to use restricted net position first.

OTTUMWA WATER WORKS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Ottumwa Water Works applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements; Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

The Ottumwa Water Works distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Utility's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Assets, Liabilities and Net Position

The following accounting policies are followed in preparing the Financial Statements:

Cash, Investments and Cash Equivalents – The Ottumwa Water Works considers all short-term investments that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months. Cash investments not meeting the definition of cash equivalents at December 31, 2015 include certificates of deposit of \$3,300,000.

Accounts Receivable – Ottumwa Water Works grants credit to customers, substantially all of whom are located in Ottumwa, Iowa. The risk of loss on the accounts receivable is the balance due at the time of default. Accounts receivable are considered past due after 30 days and are charged off when management determines the account is uncollectible. The Ottumwa Water Works uses the reserve method of accounting for uncollectible accounts. At December 31, 2015, a reserve of \$216,218 is provided to allow for uncollectible customer accounts.

Material and Chemicals Inventory – Inventories are stated at the lower of cost (determined on a first-in, first-out basis) or market.

Capital Assets – Capital assets are accounted for at historical cost. Depreciation/amortization of all exhaustible capital assets is charged as an expense against operations. The cost of repair and maintenance is charged to expense, while the cost of renewals or substantial betterments is capitalized. The cost and accumulated depreciation/amortization of assets disposed of are deleted, with any gain or loss recorded in current operations.

Reportable capital assets are defined by the Utility as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of one year.

<u>Asset Class</u>	<u>Amount</u>
Buildings	\$ 500
Water distribution system	500
Equipment and vehicles	500
Office equipment	500

OTTUMWA WATER WORKS

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets (Continued)

Capital assets of the Utility are depreciated/amortized using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	15-25
Water distribution system	40-50
Equipment and vehicles	5-7
Office equipment	5-7

Interest is capitalized on qualified assets acquired with certain debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. There were no qualifying assets acquired during the year ended December 31, 2015.

Deferred Outflows of Resources – Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

Compensated Absences – Utility employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death or retirement. The Utility's liability for accrued vacation has been computed based on rates of pay in effect at December 31, 2015.

Pensions – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources – Deferred inflows of resources represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Although certain revenues are measureable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources consists of the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

OTTUMWA WATER WORKS

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates – Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Accordingly, actual results could differ from those estimates.

Budgets and Budgetary Accounting – The Budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended December 31, 2015, disbursements did not exceed the amounts budgeted.

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS

The Utility's deposits in banks at December 31, 2015 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Municipal Utility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Utility Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utility had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

NOTE 3 – CAPITAL ASSETS

A summary of capital assets at December 31, 2015 is as follows:

	<u>Balance</u> <u>Beginning of Year</u>	<u>Additions/</u> <u>Reclassifications</u>	<u>Deletions/</u> <u>Reclassifications</u>	<u>Balance</u> <u>End of Year</u>
Capital assets, not being depreciated:				
Land	\$ 947,577	\$ -	\$ -	\$ 947,577
Construction in progress	858,030	-	-	2,289,218
Total capital assets not being depreciated	1,805,607	-	-	3,236,795
Capital assets, being depreciated:				
Buildings	6,684,929	239,540	-	6,924,469
Water distribution system	47,189,736	2,153,690	-	49,343,426
Equipment and vehicles	1,479,463	155,486	-	1,634,949
Office equipment	271,014	2,170	-	273,184
Total capital assets, being depreciated	55,625,142	2,550,886	-	58,176,028
Less accumulated depreciation for:				
Buildings	3,105,966	182,356	-	3,288,322
Water distribution system	20,289,674	1,025,199	-	21,314,873
Equipment and vehicles	762,673	60,484	-	823,157
Office equipment	207,644	10,964	-	218,608
Total accumulated depreciation	24,365,957	1,279,003	-	25,644,960
Total capital assets being depreciated, net	31,259,185	1,271,883	-	32,531,068
Capital assets, net	\$ 33,064,792	\$ 1,271,883	\$ -	\$ 35,767,863

OTTUMWA WATER WORKS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 4 – PENSION PLAN

Plan Description – IPERS membership is mandatory for employees of the Utility, except for those covered by another retirement system. Employees of the Utility are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits – A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions – Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

OTTUMWA WATER WORKS

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 4 – PENSION PLAN (Continued)

In calendar year 2015, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the Utility contributed 8.93 percent for a total rate of 14.88 percent.

The Utility's contributions to IPERS for the year ended December 31, 2015 were \$135,377.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At December 31, 2015, the Utility reported a liability of \$1,097,931 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Utility's proportion of the net pension liability was based on the Utility's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At December 31, 2014, the Utility's proportion was .022085 percent, which was a decrease of .000510 from its proportion measured as of December 31, 2013.

For the year ended December 31, 2015, the Utility recognized pension expense of \$130,214. At December 31, 2015, the Utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 16,588	\$ -
Changes of assumptions	30,229	-
Net difference between projected and actual earnings on pension plan investments	164,272	255,649
Changes in proportion and differences between Utility contributions and proportionate share of contributions	(21,880)	-
Utility contributions subsequent to the measurement date	<u>68,695</u>	<u>-</u>
Total	\$ <u>257,904</u>	\$ <u>255,649</u>

\$68,695 reported as deferred outflows of resources related to pensions resulting from the Utility contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31,</u>	
2016	\$ (36,186)
2017	(36,186)
2018	(36,187)
2019	41,618
2020	<u>502</u>
	\$ <u>(66,439)</u>

There were no non-employer contributing entities at IPERS.

OTTUMWA WATER WORKS

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 4 – PENSION PLAN (Continued)

Actuarial Assumptions – The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of Inflation (effective June 30, 2014)	3.00 percent
Salary increases (effective June 30, 2014)	4.00 percent, average, including inflation
Investment rate of return (effective June 30, 1996)	7.50 percent per annum, compounded annually, net of pension plan investment expense, including inflation

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	23 %	6.31
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	<u>1</u>	(0.69)
Total	<u>100</u> %	

Discount Rate – The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Utility will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

OTTUMWA WATER WORKS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015

NOTE 4 – PENSION PLAN (Continued)

Sensitivity of the Utility's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the Utility's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Utility's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
Utility's proportionate share of the net pension liability	\$ 1,922,280	\$ 1,097,931	\$ 402,122

Pension Plan Fiduciary Net Position – Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Payables to the Pension Plan – At December 31, 2015, the Utility reported payables to the defined benefit pension plan of \$3,241 for legally required employer contributions and \$2,159 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

NOTE 5 – SELF INSURANCE PROGRAM

The Utility has a self-insurance program for hospitalization and medical coverage for its employees. The program is administered through a service agreement with Cottingham Butler. The Utility limits its losses through the use of stop-loss policies from reinsurers. Specific individual losses for claims are limited to \$40,000 a year. The Utility's aggregate annual loss limitation is based on a formula that considers, among other things, the total number of employees. For December 31, 2015, the Utility incurred \$451,412 in expense under the program.

Amounts payable by Ottumwa Water Works at December 31, 2015 total \$21,436 which is for incurred but not reported (IBNR) and reported but not paid claims. The amounts are based on estimates of the amounts necessary to pay prior-year and current-year claims. A liability has been established based on the requirements of Governmental Accounting Standards Board Statement Number 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Settlements have not exceeded the stop-loss coverage in any of the past three years. A reconciliation of changes in the aggregate liability for claims for the current year is as follows:

Unpaid claims as of December 31, 2014	\$ 88,160
Incurred claims (including claims incurred but not reported as of December 31, 2015):	
Provision for current-year events where the Utility has retained risk of loss	451,412
Payments:	
Claims attributable to current-year events where the Utility has retained risk of loss	<u>518,136</u>
Unpaid claims as of December 31, 2015	\$ <u>21,436</u>

OTTUMWA WATER WORKS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015

NOTE 6 – OTHER EMPLOYEE BENEFITS

The Water Works employees accumulate sick leave and vacation hours for subsequent use. The liability for accrued vacation at December 31, 2015 is \$91,484. The Water Works has a policy of paying one-half of the unused accumulated sick leave upon retirement of any employee. The maximum number of days an employee can accumulate is 120. Upon the death of any employee, 100% of the accumulated sick leave is paid. One-half of unused sick leave totals \$260,309, and is reflected in the financial statements as a liability at December 31, 2015.

Effective November 1, 1989, the Ottumwa Water Works began a long-term disability plan. Once an employee has accumulated the maximum number of days of sick leave referred to in the preceding paragraph, they begin to accumulate long-term disability days. The days are accumulated at 50% of the normal sick leave accrual rate, and the maximum number of days to be accrued is 120. The compensation is computed at 60% of the employee's normal salary and is paid only after all normal sick leave benefits are exhausted.

The amount of the accrual reflected on the balance sheet at December 31, 2015 for the long-term disability benefit is \$88,600.

NOTE 7 – POST RETIREMENT BENEFITS

On July 22, 1992, the Ottumwa Water Works approved a policy to drop the group term life insurance coverage on existing retirees and instead pay a one-time death benefit equal to the term coverage in effect as of this date. The total death benefit payable as of December 31, 2015 was \$4,000 and covers four retirees. Only these four retirees are covered by this provision. Any other employees retiring on or after July 22, 1992 will not receive this benefit.

NOTE 8 – RELATED PARTY TRANSACTIONS

The Ottumwa Water Works provides billing and collection services to the City of Ottumwa, Iowa for sewer and refuse services. The following is a summary of the balances due to the City at December 31, 2015:

Accrued sewer services charges	\$	1,310,742
Accrued refuse collection fees		<u>502,568</u>
Total accrued sewer and refuse collections	\$	<u>1,813,310</u>

See note 9 regarding contracts payable to the City of Ottumwa, Iowa.

NOTE 9 – LONG-TERM LIABILITIES

A summary of the changes in long-term liabilities for the year ended December 31, 2015, is as follows:

	Balance Beginning Of Year, as Restated	Increases	Decreases	Balance End Of Year	Due Within One Year
Revenue Bonds	\$ 9,307,400	\$ 1,201,075	\$ 1,492,400	\$ 9,016,075	\$ 649,465
Contract Payable	1,921,657	225,000	213,183	1,933,474	265,274
Net OPEB Liability	94,123	15,014	-	109,137	-
Net pension Liability	914,429	183,502	-	1,097,931	-
Total	\$ <u>12,237,609</u>	\$ <u>1,624,591</u>	\$ <u>1,705,583</u>	\$ <u>12,156,617</u>	\$ <u>914,739</u>

OTTUMWA WATER WORKS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015

NOTE 9 – LONG-TERM LIABILITIES (Continued)

Contract Payable to City of Ottumwa, Iowa

During 2006, 2010, 2012, 2014 and 2015, the Ottumwa Water Works entered into agreements with the City of Ottumwa, Iowa, which are related to the City's sewer separation project. In the agreements, the Ottumwa Water Works agrees to reimburse the City for the cost of the project that relates to water main replacement. The City of Ottumwa, Iowa has paid for the entire cost of the project by issuing revenue and general obligation bonds and the Water Works will pay the City of Ottumwa, Iowa for its portion of the project. Phase I requires twenty annual installments of \$35,785 starting June 1, 2008. Phase II requires eight annual installments of \$45,778 starting June 1, 2010. Phase III requires thirty annual installments of \$21,215 starting June 1, 2012. The 2014 general obligation issue requires seven annual installments of between \$149,450 and \$155,900 starting June 1, 2015. The 2015 general obligation issue requires five annual installments of \$45,000 starting June 1, 2016. Interest rates vary from 2.00% to 3.25%. Interest paid during the year ended December 31, 2015 was \$43,204.

Iowa Department of Natural Resources

On June 2, 2005, the Utility entered into agreements with the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. for the issuance of \$4,000,000 of water revenue bonds, with an interest rate of 3.0% per annum. The bonds also require the utility to annually pay a .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapter 384 and Section 384.24A of the Code of Iowa to pay the costs of constructing improvements and extensions to the water system. During the year ended December 31, 2015, the Utility paid interest of \$77,445 on this loan.

On December 28, 2006, the Utility entered into agreements with the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. for the issuance of \$4,800,000 of water revenue bonds, with an interest rate of 3.0% per annum. The bonds also require the Utility to annually pay a .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapter 384 and Section 384.24A of the Code of Iowa to pay the costs of constructing improvements and extensions to the water system. During the year ended December 31, 2015, the Utility paid interest of \$92,940 on this loan.

On March 31, 2011, the Utility entered into agreements with the Iowa Department of Natural Resources and the Iowa Finance Authority for the issuance of \$1,400,000 of water revenue bonds, with an interest rate of 3.0% per annum. The loans also require the Utility to annually pay a .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapter 384 and Section 384.24A of the Code of Iowa to pay the costs of constructing improvements and extensions to the water system. During the year ended December 31, 2015, the Utility paid interest of \$17,280 on this loan.

On September 7, 2011, the Utility entered into agreements with the Iowa Department of Natural Resources and the Iowa Finance Authority for the issuance of \$1,666,000 of water revenue bonds, with an interest rate of 3.0% per annum. The loans also require the Utility to annually pay a .25% servicing fee on the outstanding principal balance. Included in the loan is a provision for forgivable water revenue bonds. If certain conditions are met the bonds are 40% forgivable. The bonds were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa and the American Recovery and Investment Act of 2009 (ARRA) for the purpose of providing funds to pay a portion of the costs of constructing improvements and extensions to the water system. If the requirements of ARRA, including, but not limited to, satisfaction of applicable timing requirements are not met and the loan is not forgiven, the Utility will pay interest at 3.0% per annum, an annual .25% servicing fee on the outstanding principal balance (including undisbursed loan proceeds) and an initiation fee of 1% of the authorized loan. The Utility received funds from the DNR upon request to reimburse the Utility for costs as incurred. During the year ended December 31, 2015, the Utility had met the requirements for the loan to be forgiven and \$666,400 was forgiven. During the year ended December 31, 2015, the Utility paid interest of \$37,820 on this loan.

OTTUMWA WATER WORKS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 9 – LONG-TERM LIABILITIES (Continued)

Iowa Department of Natural Resources (Continued)

On October 19, 2013, the Utility entered into agreements with the Iowa Department of Natural Resources and the Iowa Finance Authority for the issuance of \$1,250,000 of water revenue bonds, with an interest rate of 2.0% per annum. The loans also require the Utility to annually pay a .25% servicing fee on the outstanding principal balance. During the year ended December 31, 2015, \$5,000 was drawn down on the loan. During the year ended December 31, 2015, the Utility paid interest of \$18,773 on this loan. Included in the \$1,250,000 loan is a provision for forgivable water revenue bonds. If certain conditions are met the bonds are 20% forgivable. The bonds were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa and the American Recovery and Investment Act of 2009 (ARRA) for the purpose of providing funds to pay a portion of the costs of constructing improvements and extensions to the water system. If the requirements of ARRA, including, but not limited to, satisfaction of applicable timing requirements are not met and the loan is not forgiven, the Utility will pay interest at 3.0% per annum, an annual .25% servicing fee on the outstanding principal balance (including undisbursed loan proceeds) and an initiation fee of 1% of the authorized loan. The Utility received funds from the DNR upon request to reimburse the Utility for costs as incurred. During the year ended December 31, 2015, the Utility had met the requirements for the loan to be forgiven and \$250,000 was forgiven.

On September 11, 2015, the Utility entered into agreements with the Iowa Department of Natural Resources and the Iowa Finance Authority for the issuance of \$4,500,000 of water revenue bonds, with an interest rate of 1.75% per annum. The bonds also require the Utility to annually pay a .25% servicing fee on the outstanding principal balance. Included in the loan is a provision for forgivable water revenue bonds. If certain conditions are met the bonds are 40% forgivable. The bonds were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa and the American Recovery and Investment Act of 2009 (ARRA) for the purpose of providing funds to pay a portion of the costs of constructing improvements and extensions to the water system. If the requirements of ARRA, including, but not limited to, satisfaction of applicable timing requirements are not met and the loan is not forgiven, the Utility will pay interest at 1.75% per annum, an annual .25% servicing fee on the outstanding principal balance (including undisbursed loan proceeds) and an initiation fee of 1% of the authorized loan. The Utility received funds from the DNR upon request to reimburse the Utility for costs as incurred. At December 31, 2015, the Utility had not yet met the requirements for the loan to be forgiven. During the year ended December 31, 2015, \$1,196,075 was drawn down on the loan. During the year ended December 31, 2015, the Utility paid interest of \$1,345 on this loan.

At December 31, 2015, the Utility had drawn \$14,312,075 including initiation fees of \$163,431.

Expected repayment schedules for all of the Utility's long-term debt are as follows:

Year Ended December 31	<u>Fully Matured</u>		<u>City of Ottumwa</u>		<u>IDNR SRF</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 7,000	\$ 1,562	\$ 265,274	\$ 43,339	\$ 642,464	\$ 235,248	\$ 914,738	\$ 280,149
2017	-	-	267,422	37,015	661,347	216,879	928,769	253,894
2018	-	-	228,893	31,057	681,246	197,951	910,139	229,008
2019	-	-	229,790	26,361	701,160	178,450	930,950	204,811
2020	-	-	230,709	21,642	720,090	158,385	950,799	180,027
2021 to 2025	-	-	368,130	68,370	3,505,986	494,445	3,874,116	562,815
2026 to 2030	-	-	135,199	42,446	1,449,809	124,571	1,585,008	167,017
2031 to 2035	-	-	77,119	28,956	646,973	26,662	724,092	55,618
2036 to 2040	-	-	90,492	15,584	-	-	90,492	15,584
2041 to 2042	-	-	40,446	1,983	-	-	40,446	1,983
	<u>\$ 7,000</u>	<u>\$ 1,562</u>	<u>\$ 1,933,474</u>	<u>\$ 316,753</u>	<u>\$ 9,009,075</u>	<u>\$ 1,632,591</u>	<u>\$ 10,949,549</u>	<u>\$ 1,950,906</u>

OTTUMWA WATER WORKS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 9 – LONG-TERM LIABILITIES (Continued)

The Utility has pledged future water customer revenues, net of specified operating expenses, to repay the various water revenue notes described below. These notes are payable solely from water customer net revenues and are payable through 2042. Annual principal and interest payments on these notes are expected to require less than 90% of net revenues. The total principal and interest remaining to be paid on the notes is \$10,641,666 for the current year. Principal and interest paid and total customer net revenues (operating income plus depreciation/amortization expense) were \$821,603 and \$3,163,497, respectively.

The resolution providing for the issuance of the revenue notes includes the following provisions:

- a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- b) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the notes falling due in the same year.

During the year ended December 31, 2015, the Utility was in compliance with the revenue note provisions.

NOTE 10 – RISK MANAGEMENT

The Utility is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The Utility assumes liability for any deductibles and claims in excess of coverage limitations.

NOTE 11 – MAJOR CUSTOMERS

Sales to two major customers accounted for greater than 10% of total sales for the year ended December 31, 2015. At December 31, 2015, amounts due from these customers were \$269,843.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

Prior to December 31, 2015, the Utility had signed various contracts for construction projects in conjunction with the City of Ottumwa, Iowa that are summarized below:

Total commitments	\$	5,638,790
Amounts paid or accrued		<u>2,634,949</u>
Remaining commitments	\$	<u>3,003,841</u>

The remaining balance at December 31, 2015 will be paid as work on the projects progress.

NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description – The Utility operates a single-employer health benefit plan which provides medical benefits for employees, retirees and their spouses. There are 3 active and 23 retired members in the plan. The current eligible group is frozen, there will be no new entrants to the plan.

The medical coverage is provided through a partially self funded plan administered by Cottingham Butter.

Funding Policy – The contribution requirements of plan members are established and may be amended by the Utility. The Utility currently finances the retiree benefit plan on a pay-as-you-go basis.

OTTUMWA WATER WORKS

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

Annual OPEB Cost and Net OPEB Obligation – The Utility's annual OPEB cost is calculated based on the annual required contribution (ARC) of the Utility, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the Utility's annual OPEB cost for the year ended December 31, 2015, the amount actually contributed to the plan and changes in the Utility's net OPEB obligation:

Annual required contribution	\$ 83,060
Interest on net OPEB obligation	4,134
Adjustment to annual required contribution	<u>(2,255)</u>
Annual OPEB cost	84,939
Contributions made	<u>(69,925)</u>
Increase in net OPEB obligation	15,014
Net OPEB obligation beginning of year	<u>94,123</u>
Net OPEB obligation end of year	\$ <u>109,137</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as January 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended December 31, 2015.

For the year ended December 31, 2015, the Utility contributed \$69,925 to the medical plan.

The Utility's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation are summarized as follows:

<u>Year Ended</u> <u>December 31,</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>% of</u> <u>Annual OPEB</u> <u>Cost Contributed</u>	<u>Net</u> <u>OPEB</u> <u>Obligation</u>
2013	\$ 46,143	72.47%	\$ 82,643
2014	46,476	75.30	94,123
2015	84,939	82.32	109,137

Funded Status and Funding Progress – As of January 1, 2015, the most recent actuarial valuation date for the period January 1, 2015 through December 31, 2015, the actuarial accrued liability was \$582,333 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$582,333. The covered payroll (annual payroll of active employees covered by the plan) was \$185,737 and the ratio of the UAAL to covered payroll was 3.14%. As of December 31, 2015, there were no trust fund assets.

Actuarial Methods and Assumptions – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumption about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for the Retiree Health Plan, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

OTTUMWA WATER WORKS

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

Actuarial Methods and Assumptions (Continued)

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the January 1, 2015 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 4.5% discount rate based on the Utility's funding policy. The projected annual medical trend rate is 7.5%. The ultimate medical trend rate is 5.5%. The medical trend rate is reduced 0.4% each year until reaching the 5.5% ultimate trend rate. An inflation rate of 0% is assumed for purposes of this computation.

Mortality rates are from the 2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed using the alternate valuation method as prescribed in GASB 45.

The UAAL is being amortized as a level percentage over 25 years.

NOTE 14 – ACCOUNTING CHANGE/RESTATEMENT

Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27 was implemented during fiscal year 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB No. 68 requires a state or local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions. During the transition year, as permitted, beginning balances for deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by Governmental Accounting Standards Board Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. Beginning net position was restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

OTTUMWA WATER WORKS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 14 – ACCOUNTING CHANGE/RESTATEMENT (Continued)

	<u>Net Position</u>
Net position December 31, 2014, as previously reported	\$ 25,539,626
Net pension liability at December 31, 2014	(914,429)
Deferred outflows of resources related to prior year contributions made after the December 31, 2013 measurement date	68,282
Deferred outflows of resources Difference between expected and actual experience	9,938
Deferred outflows of resources Changes in assumptions	40,356
Deferred outflows of resources Changes in proportion and differences between Utility contributions and proportionate share of contributions	43,751
Deferred inflows of resources Net difference between projected and actual earnings on pension plan investments	<u>(348,737)</u>
Net position December 31, 2014, as restated	\$ <u>24,438,787</u>

NOTE 15 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through September 27, 2016, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

OTTUMWA WATER WORKS

BUDGETARY COMPARISON SCHEDULE OF
RECEIPTS, DISBURSEMENTS AND CHANGES IN
BALANCES - BUDGET AND ACTUAL
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2015

	<u>Actual Accrual Basis</u>	<u>Accrual Adjustments</u>	<u>Actual Modified Accrual Basis</u>	<u>Budget Original/Final</u>	<u>Final to Actual Modified Accrual Basis Variance</u>
Receipts:					
Use of money and property	\$ 34,429	\$ -	\$ 34,429	\$ 35,000	\$ (571)
Charges for service	7,834,998	-	7,834,998	7,818,397	16,601
Miscellaneous	75,018	-	75,018	-	75,018
	<u>7,944,445</u>	<u>-</u>	<u>7,944,445</u>	<u>7,853,397</u>	<u>91,048</u>
Disbursements:					
Business-type activities	<u>6,339,699</u>	<u>3,477,413</u>	<u>9,817,112</u>	<u>10,144,286</u>	<u>327,174</u>
Excess (deficiency) of receipts over (under) disbursements	1,604,746	(3,477,413)	(1,872,667)	(2,290,889)	418,222
Other financing sources, net	<u>916,400</u>	<u>509,675</u>	<u>1,426,075</u>	<u>1,400,000</u>	<u>26,075</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	2,521,146	(2,967,738)	(446,592)	(890,889)	444,297
Balance beginning of year, as restated	<u>24,438,787</u>	<u>(20,640,773)</u>	<u>3,798,014</u>	<u>4,103,503</u>	<u>(305,489)</u>
Balance end of year	\$ <u>26,959,933</u>	\$ <u>(23,608,511)</u>	\$ <u>3,351,422</u>	\$ <u>3,212,614</u>	\$ <u>138,808</u>

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED DECEMBER 31, 2015

The budgetary comparison is presented as Required Supplementary Information in accordance with Government Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences.

In accordance with the Code of Iowa, the Utility annually adopts a budget on the modified accrual basis following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of expenses known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government; debt service, capital projects and business-type activities. Although the budget document presents function expenses by fund, the legal level of control is at the aggregated function level, not by fund. During the year, there were no budget amendments.

OTTUMWA WATER WORKS

SCHEDULE OF THE UTILITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
LAST FISCAL YEAR*

REQUIRED SUPPLEMENTARY INFORMATION

	<u>2015</u>
Utility's proportion of the net pension liability	0.022085 %
Utility's proportionate share of the net pension liability	\$ 1,097,931
Utility's covered-employee payroll	\$ 1,542,143
Utility's proportionate share of the net pension liability as a percentage of its covered-employee payroll	71.20 %
Plan fiduciary net position as a percentage of the total pension liability	87.61 %

* The amounts presented for each fiscal year were determined as of December 31.

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Utility will present information for those years for which information is available.

OTTUMWA WATER WORKS

SCHEDULE OF UTILITY CONTRIBUTIONS
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
LAST 2 FISCAL YEARS

REQUIRED SUPPLEMENTARY INFORMATION

	<u>2015</u>	<u>2014</u>
Statutorily required contribution	\$ 136,371	\$ 137,714
Contributions in relation to the statutorily required contribution	<u>(136,371)</u>	<u>(137,714)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>
Utility's covered-employee payroll	\$ 1,527,110	\$ 1,542,143
Contributions as a percentage of covered-employee payroll	8.93 %	8.93 %

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Utility will present information for those years for which information is available.

OTTUMWA WATER WORKS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION LIABILITY

YEAR ENDED DECEMBER 31, 2015

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

OTTUMWA WATER WORKS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION LIABILITY

YEAR ENDED DECEMBER 31, 2015

Changes of assumptions: (Continued)

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

OTTUMWA WATER WORKS

SCHEDULE OF FUNDING PROGRESS FOR THE
RETIREE HEALTH PLAN

REQUIRED SUPPLEMENTARY INFORMATION

<u>Year Ended December 31,</u>	<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a) / c)</u>
2009	January 1, 2009	\$ -	\$ 1,360,045	\$ 1,360,045	- %	\$ 280,849	4.84 %
2010	January 1, 2009	-	1,360,045	1,360,045	-	288,756	4.71
2011	January 1, 2009	-	1,360,045	1,360,045	-	284,278	4.78
2012	January 1, 2012	-	410,633	410,633	-	228,152	1.80
2013	January 1, 2012	-	410,633	410,633	-	174,476	2.35
2014	January 1, 2012	-	410,633	410,633	-	185,787	2.21
2015	January 1, 2015	-	582,333	582,333	-	185,737	3.14

See Note 13 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

SUPPLEMENTARY INFORMATION

OTTUMWA WATER WORKS

DETAIL SCHEDULE OF REVENUES AND EXPENSES
YEAR ENDED DECEMBER 31, 2015

OPERATING REVENUE:

Sale of water	\$ 6,866,735
Sale of electricity	492,903
Miscellaneous income:	
Fire protection - Private	203,342
Customer forfeitures	40,083
Customer disconnect fees	82,104
Service connections	27,869
Service charge - Sewer billing	80,004
Service charge - Refuse billing	41,958
Miscellaneous	75,018
TOTAL OPERATING REVENUE	<u>7,910,016</u>

OPERATING EXPENSES:

Production:	
Supervision	125,818
Maintenance labor	121,647
Operations labor	179,146
Overtime/PTO/Etc.	128,682
Chemicals/carbon	362,906
Laboratory supplies	25,069
Employee benefits/taxes	218,343
Supplies/maintenance	580,338
	<u>1,741,949</u>
Distribution:	
Supervision	67,080
Maintenance labor	282,707
Meter labor	65,644
Overtime/PTO/Etc.	132,955
Maintenance materials	129,135
Contract street repairs	154,294
Employee benefits/taxes	296,609
Supplies/maintenance	661,218
	<u>1,789,642</u>
Hydro:	
Operations labor	86,643
Overtime/PTO/Etc.	26,228
Maintenance supplies	43
Headwater Fee	3,327
Employee benefits/taxes	53,736
Supplies/maintenance	56,366
	<u>226,343</u>
Financial services:	
Financial services supervision	60,740
Financial services labor	111,968
Overtime/PTO/Etc.	17,005
Office supplies	9,948
Postage expense	57,114
Noncollectible accounts	16,500
Employee benefits/taxes	70,877
Supplies/maintenance	58,464
	<u>402,616</u>

OTTUMWA WATER WORKS

DETAIL SCHEDULE OF REVENUES AND EXPENSES
YEAR ENDED DECEMBER 31, 2015

OPERATING EXPENSES: (Continued)

Administration:

Executive salaries	94,183
Board salaries	1,100
Overtime/PTO/Etc.	15,595
Employee benefits/taxes	8,526
Training expense	1,294
Subscriptions	4,648
Legal services	9,076
Business expense	5,545
	<u>139,967</u>

General plant:

Employee's miscellaneous expense	22,470
General property expense	33,309
Safety program	2,407
Liability insurance	92,687
Workmen's compensation insurance	2,578
Group health insurance	19,230
Health insurance - Retirees	188,051
Supplies/maintenance	42,030
Contract labor	21,493
Fuel and power	1,347
General services/contingency	16,712
Gas and oil	3,688
	<u>446,002</u>

Depreciation and amortization	<u>1,284,003</u>
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TOTAL OPERATING EXPENSES	<u>6,030,522</u>
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OPERATING INCOME	1,879,494
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NONOPERATING REVENUE (EXPENSE):

Interest income	34,429
Interest expense	(309,177)
Forgivable loan proceeds	916,400
Total nonoperating revenue (expense)	<u>641,652</u>

CHANGE IN NET POSITION	\$ <u>2,521,146</u>
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees
Ottumwa Water Works
Ottumwa, Iowa

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Ottumwa Water Works, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise Ottumwa Water Works' basic financial statements, and have issued our report thereon dated September 27, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Ottumwa Water Works' internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Ottumwa Water Works' internal control. Accordingly, we do not express an opinion on the effectiveness of Ottumwa Water Works' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of Utility's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Ottumwa Water Works' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about Ottumwa Water Works' operations for the year ended December 31, 2015 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of Ottumwa Water Works. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Ottumwa Water Works' Responses to the Findings

Ottumwa Water Works' responses to the findings identified in our audit are described in the accompanying Schedule of Findings. Ottumwa Water Works' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the utility's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the utility's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Ottumwa Water Works during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa
September 27, 2016

OTTUMWA WATER WORKS
SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2015

Part I: Findings Related to the Financial Statements

INTERNAL CONTROL DEFICIENCIES:

No matters were noted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Part II: Other Findings Related to Required Statutory Reporting

- II-A-15 Certified Budget – Disbursements during the year ended December 31, 2015 did not exceed the amounts budgeted.
- II-B-15 Questionable Expenses – No expenses that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- II-C-15 Travel Expense – No expenditures of money for travel expenses of spouses of Utility officials or employees were noted.
- II-D-15 Business Transactions – No business transactions between the Utility and Utility officials or employees were noted.
- II-E-15 Bond Coverage – Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-15 Trustee Minutes – No transactions were found that we believe should have been approved in the minutes but were not.
- II-G-15 Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utility's investment policy were noted.
- II-H-15 Revenue Bonds – No instances of non-compliance with the revenue bond provisions were noted.